

Systemic Risk Fund Should Act Like Insurance, Not a Bailout

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(Washington DC) Today, members of the Financial Services Committee evaluated comprehensive reform of our financial system, directing questions to Secretary of the Treasury, Timothy F. Geithner. Congressman Luis V. Gutierrez, Chairman of the Subcommittee on Financial Institutions and Consumer Credit, made the following remarks:

Mr. Secretary, I'd like to thank you for appearing before us today; I just had a few comments about the systemic risk proposal that was revealed on Tuesday night. While I support most of this legislation, I do have apprehensions about the way you have proposed to create a fund to pay for the costs associated with the resolution of failed, systemically significant financial institutions. As most Americans know, when you get a life insurance policy, you pay into the fund month after month, year after year, certainly hoping that you do not die very soon but knowing that if you do, the family you leave behind and the debts you accumulated during your life will be taken care of.

But nobody is ever granted an insurance policy retroactively after they die so why should Congress give exactly that ability to big banks after they have failed? This is what the current plan proposes, and I have strong concerns about it. We need to establish a systemic risk fund that acts like an insurance fund, not a bailout fund, against the losses incurred by "too big to fail" institutions, and we need to treat it like insurance. Institutions covered by this fund should have to pay into it on a regular basis, much like banks currently do with the current Deposit Insurance Fund. I am especially pleased to see that Chairman Bair of the FDIC has endorsed this concept in her testimony this morning as well.

Now, I know that some in the industry are complaining that it is unfair for them to pay in advance to a fund that might be used to rescue others. I hate to break the news to them, and I don't mean to call them hypocritical, but some of them are in the insurance industry, and that's exactly what they provide: insurance! In my opinion, what is truly unfair is that the financial services industry has forced the American people to bail them out to the tune of billions upon billions of dollars because of foolhardy and greedy bets that they made over the past few years. And it is especially unfair that this same consideration is not being given to the thousands of small, community financial institutions that are struggling to help small businesses make loans and help our families get back on their feet.

A fund created to resolve the losses of a failed institution should NOT be funded after that institution has failed for one very simple reason. Should an institution of this size and complexity fail in the future, it will likely be as a result of a system-wide problem which would invariably affect the other financial institutions. As we have seen during this crisis, asking banks to put even more money into an insurance fund in the middle of an economic crisis has proven disastrous for both consumer and small business lending. Doing so would have a pro-cyclical effect on any crisis, worsening the situation for institutions that might already be teetering on the brink themselves.

What we want to create is an anti-cyclical funding mechanism where financial institutions contribute during the good times and prevent them from paying huge amounts at times when that money should be used to spur lending in our communities, which is exactly the situation our banks find themselves in today. I urge this committee to consider a way to charge assessments to these systemically significant institutions in a way that is fair and based on their risk to the system as a whole. The Bank Accountability and Risk Assessment Act (HR 2897), legislation that I have introduced, and many on this committee support, would assess banks based on their size, complexity and risk to the system and create a fund that can be used along with the proposed resolution authority to prevent a failed institution from threatening the rest of the system.

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